

Members

Sen. Becky Skillman, Chairperson
Sen. Teresa Lubbers
Sen. Allen Paul
Sen. Mark Blade
Sen. Earline Rogers
Sen. Larry Lutz
Rep. Robert Kuzman
Rep. David Crooks
Rep. John Frenz
Rep. Robert Cherry
Rep. Jack Lutz
Rep. David Yount



INTERIM STUDY COMMITTEE ON ECONOMIC DEVELOPMENT ISSUES

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MEETING MINUTES¹

Meeting Date: August 24, 1999
Meeting Time: 10:30 A.M.
Meeting Place: 3000 N. Kent Ave., Purdue
Technology Center
Meeting City: West Lafayette, Indiana
Meeting Number: 2

Members Present: Sen. Becky Skillman, Chairperson; Sen. Teresa Lubbers; Sen. Mark Blade; Sen. Earline Rogers; Rep. Robert Kuzman; Rep. David Crooks; Rep. John Frenz; Rep. Robert Cherry; Rep. David Yount.

Members Absent: Sen. Allen Paul; Sen. Larry Lutz; Rep. Jack Lutz.

Senator Becky Skillman, the chair of the Committee, convened the Committee's second meeting at 10:30 a.m. Mr. Terry Streuh of Purdue University welcomed the Committee to the Purdue Research Park. Dean Don Gentry, Dean of the Purdue University School of Technology, then gave the Committee a brief overview of economic development efforts being conducted by Purdue University and the Purdue Research Foundation.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Dean Gentry explained that Purdue University was focusing on the following economic development activities: (1) human capital development; (2) innovation and research; (3) commercialization of products; (4) technology transfer; (5) job creation; and (6) access to financing. He noted that financing was probably the biggest obstacle to the creation of new jobs. Dean Gentry stated that Purdue University has entered into partnerships with business, industry, agriculture, government, and other educational institutions in order to assist in new business development and the commercialization of research findings.

Dean Gentry briefly outlined the structure, mission, and accomplishments of the Purdue Economic Development Council. He then discussed the following aspects of Purdue's Technical Assistance Program ("TAP"): (1) improving manufacturing competitiveness; (2) fostering new product placement; (3) implementing advanced management tools; (4) addressing environmental problems; (5) providing a summer intern program; and (6) holding a high tech job fair for Indiana companies. He noted that TAP is targeted to small-sized and medium-sized companies in Indiana.

Dean Gentry then described the Purdue Research Park. He explained that the Purdue Research Park is owned and operated by the Purdue Research Foundation, and that the goal of the Park is to assist in the development of technology-based businesses in partnership with Purdue University. He stated that the Purdue Research Park currently has over 80 companies and that over 2,500 high tech jobs have been created by those companies.

He then listed the following state investment needs: (1) targeted research leveraging, which will be aided by the newly established Twenty-First Century Research and Technology Fund; (2) spreading regional technology centers throughout Indiana; (3) expanding the Technical Assistance Program statewide to ten centers; (4) job development and job placement services for high wage, high skill jobs; and (5) improving the overall business environment. (See "Exhibit A" for an outline of Dr. Gentry's remarks.)

Senator Skillman then recognized Mr. Stan Mithoefer of the Purdue Research Foundation. Mr. Mithoefer stated that in 1980 there were only 12 business incubators in the United States, but that this number has grown to between 600 and 700. He explained that the Purdue Research Park consists of the Business and Technology Center, the Purdue Technology Center (opened May 1999), and the partnership between Purdue University and the Innovation Center (scheduled to open November 1999).

Mr. Mithoefer stated that a goal of the Purdue Research Park was to provide a mechanism by which research could flow through to a commercial product. He noted that the tenant companies of the business incubator at the Purdue Research Park are limited to firms that are related to high tech industries. He also described how the new Innovation Center was designed to accommodate successful start-up companies that have "graduated" from the incubator because they have grown too large for their existing facilities. Senator Skillman asked Mr. Mithoefer if there was a maximum time that a firm could remain in the Park. Mr. Mithoefer answered that currently no such time limit existed, but because of the great demand for space in the Park, the Foundation was reviewing the issue of whether it would ask some firms to leave if they did not show viability.

Mr. Mithoefer then guided the Committee members and members of the public on a tour of the Purdue Research Park facilities. (See Exhibit B for materials passed out to the Committee members by Mr. Mithoefer.)

Senator Skillman then recognized Mr. David McKinnis, the Assistant Director of the Technical Assistance Program. Mr. McKinnis stated that the primary mission of the

Program is to help create jobs for Indiana citizens. He noted that the Program, which was established in 1986, serves more than 600 firms and governmental units each year from West Lafayette and two regional campuses. Mr. McKinnis explained that the Program assists in such things as information searches, document searches and deliveries, helping to design plant lay-outs, and the holding of high tech job fairs. He then briefly described how the statewide expansion of the Program had been proposed to the General Assembly during the past legislative session.

Dr. Sam Florence, Director of the Purdue Research Foundation's Gateways Program, then gave the Committee a brief description of that program.

In the afternoon portion of the Committee's meeting, the Committee began by approving the minutes from the first meeting.

Senator Skillman then recognized Mr. Victor Lechtenberg, Dean of Agriculture at Purdue University. Dean Lechtenberg described a number of challenges and opportunities facing agriculture and food science, including: (1) the expectations of consumers concerning agriculture, food science, and natural resources; (2) the global nature of markets; (3) rapidly changing technologies, including information technology and biotechnology (such as genomic research).

In discussing the global nature of markets, Dean Lechtenberg pointed out how the downturn in Pacific Rim economies has resulted in a decrease in American agricultural exports. He also noted that over 90 agriculture students from Purdue University are studying outside the United States.

He then explained how Purdue University has also entered into partnerships with other universities to assist in new business development originating from basic research.

Senator Skillman then recognized Mr. Bill Sheldrake, President of the Indiana Fiscal Policy Institute, to discuss the Indiana Human Capital Retention Project. Mr. Sheldrake began by noting that the Indiana Fiscal Policy Institute had prepared two reports as part of this project, "The Evolution of Indiana's Labor Force 1968-1997" and "Graduate Migration from Indiana's Postsecondary Institutions."

He stated that Indiana ranks 49th among all states in the percentage of residents 25 years of age and older who have attained at least a bachelor's degree. According to Mr. Sheldrake, the job categories of "Professional and Specialty Occupations" and "Executive, Administrative, and Managerial Occupations" have accounted for approximately 75% of the net job growth nationwide since 1989. He noted that these jobs pay approximately 60% above the average wage.

Mr. Sheldrake then explained that Indiana has ranked last among all states in the percentage of persons employed in these job categories. He pointed out, however, that Indiana was ranked first nationally in manufacturing employment.

Mr. Sheldrake then discussed the following issues:

- (1) Indiana has been above the national average in persons receiving high school diplomas and bachelor's and master's degrees;
- (2) Indiana is a significant exporter of graduates with postsecondary degrees; over time, approximately one-third of Indiana college graduates leave the state (and approximately 90% of non-residents who come to Indiana for a college education

leave after graduation);

(3) surveys show that Indiana's graduates leave the state for employment-related reasons; and

(4) quality of life in Indiana is a factor in the failure to retain college graduates in Indiana.

Senator Teresa Lubbers questioned Mr. Sheldrake concerning the methodology used for the studies. Mr. Sheldrake explained that over 12,000 graduates had been surveyed and that the National Opinion Research Center, considered to be experts in this field, had assisted in the surveys.

Senator Lubbers asked Mr. Sheldrake to rank the factors behind Indiana graduates' decisions to leave the state. He answered that general career development or advancement was the highest ranked reason given in the surveys, followed by specific job-related reasons and then by pay.

Representative Robert Kuzman pointed out that the data do not reflect possible improvement that will result from the newly created Twenty-First Century Research and Technology Fund. He also stated that the fact that graduates leave the state in such high numbers may result from Indiana firms not paying competitive wages.

Senator Skillman noted that the data showed that the state of Kentucky had a relatively high rate of retention for its college graduates. She asked Mr. Sheldrake if he knew why this occurred. Mr. Sheldrake responded that he was unsure, and he explained that the survey was taken over a two-year period and that possibly it took graduates longer to migrate from Kentucky.

Senator Earline Rogers asked Mr. Sheldrake what factors were included in the "quality of life" component of the survey when Indiana graduates were asked why they had left or had remained in the state. Mr. Sheldrake explained that three factors were included under "quality of life": (1) recreational and social opportunities; (2) culture; and (3) weather.

Senator Lubbers asked whether Indiana was losing its graduates with the highest levels of educational attainment. Mr. Sheldrake replied that Indiana did seem to be losing its graduates in engineering, mathematics, and other sciences.

Representative Yount asked how Indiana ranked in average wage or salary. Mr. Sheldrake stated that Indiana personal income as a percentage of the national average has been trending down. He explained that the occupations included under the categories "Professional and Specialty Occupations" and "Executive, Administrative, and Managerial Occupations" have had growing wages, but that Indiana has not participated in this wage growth because of its low ranking in the number of persons employed in these job categories.

Senator Skillman then recognized Mr. Graham Toft, President of the Indiana Economic Development Council ("IEDC"), for a discussion of the IEDC's proposed strategy to foster growth companies.

Mr. Toft began by stating that he believes there is a supply of workers capable of filling growth company jobs, but there is a relatively low number of these jobs in Indiana. Mr. Toft then explained that the IEDC's goal was to raise Indiana's per capita income and average wage above the national average, and that this could be accomplished through

two strategies: (1) capitalizing on Indiana's existing industrial base; and (2) the expansion of "frontier" industries. He stated that Indiana's economic development efforts should focus on growth companies that have high pay jobs, research and development investments, and technological innovations.

Mr. Toft described a number of factors that have made the United States the most competitive nation over the last decade, such as: (1) tax policy; (2) savings and investment policy; (3) regulatory reforms; (4) technological innovation; and (5) an economic structure that fostered innovation, an entrepreneurial climate, and local seed capital and venture capital. He commented that attitudes favoring entrepreneurial activities and innovation were not as fully developed in Indiana as in other parts of the United States, and he noted that Indiana ranks roughly in the middle of all states for certain technology and capital benchmarks.

According to Mr. Toft, Indiana ranks low (38th) in the number of high pay jobs, but first nationally in the number of middle pay positions. He said that the growth rate of Indiana's high pay jobs over the last decade has exceeded the national average.

Mr. Toft then listed several characteristics of growth companies: (1) higher wages and benefits; (2) higher research and development expenditures; (3) more jobs with advancement potential; (4) higher investment in workers; and (5) greater export activity. He noted that the percentage of Indiana's growth companies that were manufacturing firms was higher than the national average.

Senator Lubbers asked Mr. Toft whether Indiana is experiencing an out-migration of those persons who would be likely to start high growth companies. Mr. Toft answered that it is clear that Indiana is losing its technically sophisticated graduates. Senator Rogers commented that the testimony had centered around creating high skill jobs, but that she feared the Committee would lose sight of the fact that not all workers could fill these jobs. Mr. Toft noted that in the past Indiana had done relatively well at creating lower-skill jobs for those persons who did not have college educations. Senator Mark Blade commented that it is important to keep in mind parts of the state other than Indianapolis when considering strategies for increasing the number of high skill or high tech jobs.

Mr. Toft then listed a number of policy recommendations concerning growth companies: (1) provide incentives for local investment pools that take equity in small start-up companies; (2) shift the state economic development budget to a five-year period; (3) make research and development equipment, computers, and other high tech equipment eligible for the same sales tax exemptions and personal property tax abatements as manufacturing equipment; (4) focus assistance through self-selecting industry alliances; and (5) include an "innovations development contingency fund" in the state budget. (See Exhibits C, D, and E for material distributed by Mr. Toft to the Committee.)

Senator Skillman then recognized Mr. Mike Miles of Concord Partners, an Indianapolis financial advisory firm. Mr. Miles began by noting that his firm works a great deal with high tech firms. He then described to the Committee the four types of capital: (1) seed; (2) start-up; (3) venture; and (4) mezzanine. He commented that there is very little seed capital in Indiana, especially for new high tech firms. He indicated that such capital flows to the east or west coasts, with less available for new firms in the Midwest. Mr. Miles gave examples of Indiana high tech firms being enticed to move to New York or Massachusetts to be closer to venture capital investors.

Senator Lubbers asked Mr. Miles if he could estimate how much of the out-migration of Indiana's college graduates could be associated with a lack of capital. Mr. Miles answered

that it is partly related to lack of access to capital, but that other factors are also important. He noted the desire of graduates to work in high tech "cluster areas" and in areas where the general business climate is conducive to entrepreneurs.

Representative Kuzman asked Mr. Miles if he had suggestions on what government could do. Mr. Miles replied that many other states have established "CAPCOs," which involve tax credits for companies that invest in venture capital firms.

Senator Skillman then recognized Mr. David Becker, President of the First Internet Bank of Indiana. Mr. Becker described how he had started a software company in 1981, and he stated that in the 1980s it was very difficult for non-manufacturing firms in Indiana to attract start-up capital. He commented that there still seems to be less assistance for small start-ups that are not manufacturing firms. Mr. Becker stated that he believes the economic climate in Indiana is good, other than the lack of access to capital. He said that in starting up the First Internet Bank, he could not raise all of its necessary capital in Indiana.

In answer to a question from Senator Lubbers, Mr. Becker stated that he had lost a few employees to Microsoft, but that these persons had eventually returned to Indiana because of the life style and the relatively low cost-of-living in Indiana. He said that annually he typically hires seven or eight new college graduates from Indiana, but that each year he loses some employees who have worked for him and improved their skills. He commented that he believes it is important to hire new graduates because these persons bring cutting edge ideas and skills into his workforce.

Mr. Mike Brooks of Greater Lafayette Progress was then recognized by Senator Skillman. Mr. Brooks began by expressing support for the expansion of property tax abatements to include research and development equipment. He noted that a bill to do that had passed both chambers of the General Assembly, but that the bill had died during conference committee because of other issues. He gave the example of a firm that wished to purchase a \$500,000 spectrometer, but was denied a property tax abatement for the equipment by the State Board of Tax Commissioners because existing law covers only manufacturing equipment.

Mr. Brooks also commented that Indiana economic development efforts should not ignore the importance of the state's existing industrial base. He said that providing incentives for the creation of new jobs was not enough, and that some incentives should be made available for firms that retain jobs in Indiana. He stated that he did recognize the difficulty in evaluating whether a firm's decision to retain jobs was actually based on an incentive.

Senator Skillman then thanked the members and the witnesses for their participation. The next meeting was set for 10:00 a.m. on September 14 at the State House in Indianapolis. Meeting dates were also tentatively set for October 5 and October 26. Senator Skillman stated that the October 5 meeting would focus primarily on gaming issues, and she requested Committee members with specific research questions on that topic to contact staff as soon as possible. There being no further business, Senator Skillman adjourned the meeting.